

**GAO**

Report to the Chairman and Ranking  
Minority Member, Committee on  
Finance, U.S. Senate

December 2001

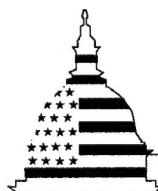
# TAX ADMINISTRATION

## Interim Report on Advance Tax Refunds

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# Contents

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<b>Letter</b>		1
	Results in Brief	2
	Background	3
	Billions of Dollars in Advance Tax Refunds Sent to Millions of Taxpayers	4
	Various Problems Occurred During Implementation of the Advance Refund Program	7
	Agency Comments	12

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<b>Appendix I</b>	<b>Comments From the Internal Revenue Service</b>	13
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<b>Appendix II</b>	<b>Comments From the Financial Management Service</b>	15
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<b>Tables</b>		
	Table 1: Number of Taxpayers and Amount of Advance Tax Refunds Each Week Through September 30, 2001	5
	Table 2: Accessibility of IRS' Telephone Assistance During Advance Tax Refund Period	10

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## Abbreviations

DFAS	Defense Finance and Accounting Service
FMS	Financial Management Service
IRS	Internal Revenue Service
SSN	Social Security number
TIGTA	Treasury Inspector General for Tax Administration



United States General Accounting Office  
Washington, DC 20548

December 13, 2001

The Honorable Max Baucus  
Chairman  
Committee on Finance  
United States Senate

The Honorable Charles E. Grassley  
Ranking Minority Member  
Committee on Finance  
United States Senate

The Economic Growth and Tax Relief Reconciliation Act of 2001<sup>1</sup> directed the Secretary of the Treasury to issue advance 2001 tax refunds to eligible individual taxpayers who filed a tax year 2000 return. As a result, the Internal Revenue Service (IRS) was tasked with identifying taxpayers who were eligible for an advance tax refund so that checks could be sent to these taxpayers by December 31, 2001. The Department of the Treasury's Financial Management Service (FMS) was to issue the checks on behalf of IRS, with the first checks to be received during the week of July 23, 2001.

In response to your request for information on IRS' efforts to implement this provision of the Economic Growth and Tax Relief Reconciliation Act of 2001, this interim report includes information on (1) the number and dollar amount of advance tax refund checks issued through September 30, 2001, and related information, such as IRS' costs to administer this program, and (2) various problems that were encountered during the program's implementation. We plan to issue a final report on this program around the end of March 2002.

To meet our objectives for this interim report, we discussed advance tax refund procedures with IRS officials and obtained statistics on (1) the number and dollar value of refunds issued, refunds that were offset due to federal tax debts, and undeliverable refund notices and checks, and (2) taxpayer contacts with IRS concerning these refunds. In addition, we discussed advance tax refund procedures with FMS officials and obtained statistics on the number of refund checks that were undeliverable and the number and dollar value of refunds that were offset for debts other than

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<sup>1</sup>P. L. No. 107-16, 115 Stat. 38.

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federal tax debts. We identified problems encountered during the program's implementation through (1) analyses of statistical data and other information and (2) discussions with IRS and FMS officials and staff of the Treasury Inspector General for Tax Administration (TIGTA) who were reviewing various aspects of the program. We did not independently verify the statistical data provided by IRS and FMS.

We did our work between July and December 2001 in accordance with generally accepted government auditing standards. We obtained written comments on a draft of this report from the Commissioner of Internal Revenue and the Commissioner of FMS. Their comments are discussed near the end of this report and are reprinted in appendixes I and II, respectively.

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## Results in Brief

As of September 30, 2001, about 84 million taxpayers were to have received about \$36 billion in advance tax refunds. IRS offset about \$2.1 billion from these advance tax refunds to recover delinquent federal taxes.<sup>2</sup> FMS offset another \$469 million for delinquent child support payments, state taxes, and federal debts other than delinquent taxes. It cost IRS about \$104 million to administer the advance tax refund program through September 30, 2001, which included IRS staffing costs as well as the costs associated with contracts, postage, and printing. FMS expects to incur about \$34 million in costs to issue the checks.

TIGTA identified two initial problems that affected either the accuracy or timeliness of the advance refund notices that IRS sent to taxpayers.<sup>3</sup> One problem involved computer programming errors that resulted in 523,000 taxpayers receiving notices indicating that they would receive larger advance tax refunds than they were entitled to receive. TIGTA brought the problem to IRS' attention, and IRS corrected it before any advance tax refunds were issued. TIGTA also determined that 5.3 million taxpayers who had filed their tax returns by the April 16 filing deadline would have delays from 1 to 9 weeks in receiving their advance refund notices because of IRS' procedures for processing returns and the way programming was developed to generate the notices.

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<sup>2</sup>IRS indicated that this offset amount was an unofficial count.

<sup>3</sup>*While Most Taxpayers Received Accurate and Timely Notification of Their Advance Refunds, Millions Did Not* (TIGTA, 2002-40-016, Oct. 24, 2001).

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Two problems that continued throughout the advance tax refund period involved (1) undeliverable refund notices and checks due to incorrect addresses and (2) taxpayer difficulties in reaching IRS telephone assistors. According to IRS, almost 2 million advance refund notices were undeliverable as of September 30, 2001, and almost 300,000 advance refund checks valued at about \$95 million were undeliverable as of October 30, 2001. IRS has procedures in place for updating addresses of taxpayers whose checks were returned as undeliverable. Taxpayers attempting to reach an IRS telephone assistor from July 1 through September 30, 2001, were successful 47 percent of the time, which was well below the 61-percent level of service reported during the 2001 filing season. Taxpayer demand for telephone service increased significantly during the advance tax refund period, according to IRS data, and IRS attributed the decline in service to that increased demand. IRS had taken steps to prepare for the demand for telephone assistance that it expected during the advance tax refund period. At the time we prepared this report, we did not have sufficient information to determine to what extent, if at all, the demand for telephone service exceeded IRS' expectations or what other factors might have contributed to the decline in service.

Another problem that was quickly identified and corrected during the early stages of the advance tax refund period involved duplicate checks sent to about 25 taxpayers. FMS had recovered either all or part of the duplicate payments from 16 of the 25 taxpayers as of November 2001 and was in the process of recovering the duplicate payments from the other 9 taxpayers.

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## Background

For tax years beginning after 2000, the Economic Growth and Tax Relief Reconciliation Act of 2001 applied a new 10-percent income tax rate to a portion of an individual's income that was previously taxed at 15 percent. To stimulate the economy more rapidly than would be achieved if taxpayers had to wait until they filed their tax year 2001 tax returns to realize the full impact of this rate reduction, the Act provided for eligible taxpayers to receive an advance 2001 tax refund. To be eligible for an advance refund, taxpayers (1) had to have a federal income tax liability on their tax year 2000 return, (2) could not be claimed as a dependent on someone else's tax year 2000 return, and (3) could not be a nonresident alien.<sup>4</sup> The amount of advance tax refund that taxpayers could receive

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<sup>4</sup>IRS identified about 34 million taxpayers who were ineligible for an advance tax refund.

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depended on the filing status and amount of taxable income shown on the taxpayer's tax year 2000 return. The maximum refund amount was \$600 for a married couple filing jointly or a qualified widow(er), \$500 for a head of household, and \$300 for a single individual or married person filing separately.

Before issuance of the advance tax refund checks, IRS was to send every individual who filed a return for tax year 2000 a notice either informing them of the refund amount they were to receive and the week in which they were to receive it or telling them that they were ineligible for a refund and why. FMS was to issue the advance tax refund checks for IRS with assistance from the Defense Finance and Accounting Service (DFAS).<sup>5</sup> Before issuing any check, IRS and FMS were to reduce the amount of the check by the amount of any delinquent federal tax or certain other debts, such as delinquent child support payments, owed by the taxpayer.

Most advance refund checks were to be issued over a 10-week period from the week of July 23, 2001, through the week of September 24, 2001, based, in general, on the last two digits of a taxpayer's Social Security number (SSN). For example, taxpayers with 00 through 09 as the last two digits of their SSN were to receive their checks the week of July 23, 2001, while taxpayers with 90 through 99 as the last two digits of their SSN were to receive their checks the week of September 24, 2001. Taxpayers who filed their tax year 2000 returns after April 16 were to receive their advance tax refund checks later in the fall.<sup>6</sup> All checks were to be issued by December 31, 2001.

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## Billions of Dollars in Advance Tax Refunds Sent to Millions of Taxpayers

IRS, through FMS, mailed out advance tax refunds according to a schedule that called for taxpayers to begin receiving checks the week of July 23, 2001. As shown in table 1, from then through the end of September, about 84.1 million taxpayers were to have received about \$35.5 billion in advance tax refunds.

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<sup>5</sup>Due to the large volume of advance tax refund checks expected to be issued each week, FMS arranged for DFAS to assist in issuing these checks. DFAS regularly issues payments on behalf of the Department of Defense for military and civilian pay, military retirement, and contractor and vendor payments.

<sup>6</sup>Because April 15, 2001, fell on a Sunday, the deadline for filing tax year 2000 individual income tax returns was extended to April 16, 2001.

**Table 1: Number of Taxpayers and Amount of Advance Tax Refunds Each Week Through September 30, 2001**

<b>Week of payment</b>	<b>Number of taxpayers</b>	<b>Amount of refunds</b>
July 23	8,040,498	\$3,381,003,777
July 30	8,269,032	3,489,098,035
August 6	8,321,705	3,514,096,376
August 13	8,348,699	3,513,145,771
August 20	8,359,913	3,530,135,846
August 27	8,407,725	3,550,997,429
September 3	8,458,451	3,575,196,124
September 10	8,534,881	3,608,636,104
September 17	8,599,113	3,638,376,094
September 24	8,759,601	3,712,510,736
<b>Totals</b>	<b>84,099,618</b>	<b>\$35,513,196,292</b>

Source: GAO's analysis of IRS' data.

According to IRS officials, it cost IRS about \$104 million to administer the advance tax refund program through the end of fiscal year 2001. Included in these costs were \$36 million for contract costs, \$33 million for postage, \$30 million for labor, and \$5 million for printing. IRS expected to incur an additional \$12 million in labor costs during fiscal year 2002 related to the advance tax refunds, because refund payments were to be made through the end of December 2001. FMS expected to incur about \$34 million in total costs to issue the checks on behalf of IRS, including the assistance provided by DFAS.

To administer the advance tax refund program, IRS, among other things, had to

- develop the computer programming necessary to determine taxpayer eligibility for the refund and the amount of each refund, including any related federal tax offset;
- arrange for printing and mailing of notices that informed taxpayers whether they would receive a refund;
- respond to telephone calls and correspondence from taxpayers concerning the refund;
- resolve undelivered and returned advance refund checks; and
- prepare adjustment notices for refunds that were offset due to federal tax debts.

According to an IRS official, it took about 3 months between March 2001 and June 2001 to develop the necessary computer programming and to

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arrange for printing and mailing of notices needed to implement the advance tax refund program. IRS temporarily reassigned staff from other functions to assist with taxpayer telephone calls and correspondence related to the advance tax refunds. For example, IRS recalled furloughed staff at its forms distribution centers to assist taxpayers who called IRS with questions about the advance refund that were relatively easy to answer. In addition, IRS used submission processing staff from its Philadelphia Service Center to help respond to over 90,000 written inquiries from taxpayers concerning the advance tax refunds.

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### Advance Tax Refunds Were Offset to Recover Federal Taxes and Other Debts

For any taxpayer whose account involves a federal tax debt, IRS is to offset the advance tax refund due to the taxpayer, either in whole or in part, to collect the debt. In addition, FMS is to offset the advance tax refunds to collect other types of debt via the Treasury Offset Program.<sup>7</sup> The notice IRS sent to taxpayers who were eligible to receive an advance tax refund included a statement that the amount of the refund could be reduced by any outstanding debt owed, such as past due federal and state taxes or child support.

According to data obtained from IRS and FMS, the two agencies had offset the advance tax refunds by almost \$2.7 billion because of taxpayer debt. As of September 30, 2001, IRS had offset about \$2.1 billion to recover delinquent federal tax. As of October 31, 2001, FMS had offset about \$469 million for the following reasons:

- \$263 million for delinquent child support.
- \$191 million for federal debts other than delinquent taxes.
- \$15 million for delinquent state taxes.

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<sup>7</sup>The Treasury Offset Program involves a centralized database of delinquent debts referred to FMS for offset against federal payments and includes federal non-tax debts, state tax debts, and child support debts.



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## Various Problems Occurred During Implementation of the Advance Refund Program

The following problems were encountered in implementing the advance tax refund program:

- A computer programming problem resulted in about 523,000 taxpayers receiving inaccurate refund notices.
- About 5.3 million taxpayers received untimely refund notices because of IRS' procedures for processing returns and the way programming was developed to generate advance refund notices.
- About 2 million notices were returned to IRS due to incorrect addresses and, as of October 30, 2001, IRS had about 300,000 undeliverable checks for which it was seeking updated addresses.
- Taxpayers who called IRS during the advance tax refund period had greater difficulty reaching IRS assistors than did taxpayers who called during the same timeframe in 2000 or during the 2001 tax filing season.
- A small number of taxpayers received duplicate checks in the early stages of the program.

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## Programming Problem Resulted in Some Inaccurate Advance Refund Notices

TIGTA identified an IRS computer programming problem that resulted in about 523,000 taxpayers receiving inaccurate advance refund notices.

As noted earlier, the maximum amount of a taxpayer's advance refund was to be \$600, \$500, or \$300 depending on the taxpayer's filing status. However, the actual amount of the advance refund was limited to the lesser of (1) 5 percent of the taxable income on the taxpayer's tax year 2000 return and (2) the net income tax from the tax year 2000 return after subtracting nonrefundable credits, such as the credit for child and dependent care expenses, child tax credit, credit for the elderly, and education credit.<sup>8</sup> TIGTA found that IRS had erred in developing its computer program by not limiting advance refund amounts to the net income tax after credits, thus resulting in the inaccurate advance refund notices.

TIGTA informed IRS of this problem on July 3, 2001, and IRS was able to correct the problem before any advance refunds were issued—thus avoiding overpayments of about \$118 million. IRS also sent corrected notices to the affected taxpayers.

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<sup>8</sup>Internal Revenue Code section 6428.

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## Many Taxpayers Received Untimely Notices

TIGTA also determined that 5.3 million taxpayers who filed their tax returns by the April 16 filing deadline would have delays from 1 week to 9 weeks in receiving their advance refund notices. TIGTA attributed the delays to the following two reasons.

- IRS' normal procedure is to process income tax returns filed by taxpayers who are due to receive a tax refund before processing income tax returns filed by other taxpayers. Thus, many nonrefund returns filed by April 16 had not been processed by the time IRS prepared the list of taxpayers who would receive the first mailout of advance refund notices.
- When IRS developed the programming to generate the advance refund notices for taxpayers affected by the above processing procedure, it decided to have the notices mailed to the taxpayers just before they were to receive their advance refund checks instead of having the notices mailed as soon as the tax return was processed.

In response to a TIGTA recommendation, IRS issued a news release explaining that some taxpayers might experience a delay in receiving their advance tax refund notices.

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## Many Advance Refund Notices and Checks Were Undeliverable

One problem that IRS encountered throughout the implementation of the advance tax refund program involved undeliverable refund notices and checks due to incorrect addresses. Undeliverable advance refund notices were to be returned to IRS' Philadelphia Service Center, and undeliverable advance refund checks were to be returned to the FMS payment center from which they were issued.

Through September 30, 2001, almost 2 million advance tax refund notices were returned to IRS as undeliverable, including about 1.1 million notices sent to taxpayers who were to receive a refund and about 900,000 notices sent to taxpayers who were ineligible for a refund. According to an IRS official, the undeliverable notices were sorted and counted by type of notice and then destroyed. Because these notices were sent to taxpayers via first class mail, the Postal Service was to forward notices for which taxpayers had provided an address change. Therefore, IRS decided that it would not be cost effective to follow up on the undeliverable notices. Even if a notice to a taxpayer who was to receive an advance tax refund was returned as undeliverable, a check would still have been sent to that taxpayer.

In a news release dated October 30, 2001, IRS indicated that there were almost 300,000 undeliverable advance refund checks valued at about \$95

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million for which they urged taxpayers to contact IRS so that the checks could be reissued to the correct address. According to an FMS official, undeliverable tax refund checks are cancelled and information concerning the cancelled checks is sent to IRS. IRS is to then research a taxpayer's account to determine if there is an updated address to which another check can be sent. IRS updates taxpayer addresses each week through a National Change of Address Database maintained by the Postal Service. Taxpayers can also update their addresses with IRS by submitting an IRS Form 8822 "Change of Address." In addition, IRS authorized its customer service representatives to accept change of address information over the telephone from taxpayers who call about their advance tax refund. According to IRS Philadelphia Service Center officials, much of the written correspondence they received involved address changes from taxpayers who wanted to ensure that they would receive their advance refunds. Although the number of undeliverable advance refund checks was substantial, the percentage of checks returned as undeliverable (less than 1 percent) was less than the approximate 4 percent rate that an FMS official indicated was normal for undeliverable tax refunds.

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### **Taxpayers Calling IRS During the Advance Tax Refund Period Had Problems Reaching an Assistor**

At the time we prepared this report, we had data on the accessibility of IRS' telephone assistance for the first 3 months of the advance tax refund period. The data showed that taxpayers calling IRS during those 3 months had problems reaching an assistor. Overall, when compared with the same 3-month period in 2000 and with the 2001 tax filing season, the accessibility of IRS' telephone assistance during the advance tax refund period generally declined.

IRS had a two-pronged approach for responding to the increased demand for telephone assistance that it expected during the advance tax refund period. The first prong of IRS' strategy was to handle as many calls as possible through automation, thereby freeing up assistors to handle calls that required live assistance. To accomplish this, IRS publicized its TeleTax phone number on notices sent to taxpayers and through an announcement played on IRS' main telephone assistance line. The TeleTax line had recorded information on the rebate program and an interactive service that told the taxpayer the expected date the check would be mailed based on the last two digits of the Social Security number entered by the taxpayer. The second prong of IRS' strategy was to increase the staffing devoted to telephone assistance. We are continuing to obtain information on the extent of IRS' efforts in this regard. Among other things, however, IRS' forms distribution centers recalled 450 employees

from furlough and trained them to handle simpler calls related to the rebate.

Despite IRS' efforts to meet the increased demand for telephone assistance during the advance tax refund period, taxpayers had greater difficulty in accessing that assistance. IRS has four measures for judging its performance in providing access to telephone assistance. As shown in table 2, IRS' performance during the first 3 months of the advance tax refund period declined for all four measures compared with the same time period in 2000 and declined for three of the four measures compared with the 2001 filing season.<sup>9</sup>

**Table 2: Accessibility of IRS' Telephone Assistance During Advance Tax Refund Period**

Measure	7/1 through 9/30/01	7/1 through 9/30/00	2001 filing season <sup>a</sup>
Assistor level of service <sup>b</sup>	47%	64%	61%
Assistor response level <sup>c</sup>	37%	38%	41%
Abandon rate <sup>d</sup>	18%	12%	18%
Average speed of answer <sup>e</sup>	408 seconds	260 seconds	273 seconds

<sup>a</sup>The 2001 filing season data are for January 1 through July 14, 2001.

<sup>b</sup>This measure is intended to show IRS' effectiveness in providing callers with access to an assistor. It includes callers who received automated service when the assistor service queue was full.

<sup>c</sup>This measure reflects the percentage of taxpayers who waited 30 seconds or less to speak with an assistor.

<sup>d</sup>This measure shows the percentage of taxpayers who hung up while waiting to speak to an assistor.

<sup>e</sup>This measure shows the average number of seconds taxpayers waited to speak to an assistor.

Source: GAO's analysis of IRS' data.

We are inquiring into reasons for the decline in telephone accessibility during the advance tax refund period and will include that information in our final report. However, one possible explanation is that the demand for telephone assistance exceeded IRS' expectations. Although we did not have usable information on IRS' expectations when we wrote this report, we did have IRS data on actual demand. IRS measures demand in two

<sup>9</sup>When we prepared this report, the most recent IRS data on accessibility was for July 1 through September 30, 2001. Because of management information system limitations, IRS does not regularly calculate these measures. IRS officials said that they would provide data for October 1 through December 31, 2001, as soon as they are available.

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ways—total call attempts and unique telephone number attempts.<sup>10</sup> According to IRS data for both of those measures, the demand for telephone assistance was about twice as high during the first 3 months of the advance tax refund period as it was during the same time period in 2000. In the first 3 months of the advance tax refund period, IRS received about 23.8 million total call attempts and about 13.3 million unique number attempts, compared to about 11.4 million and 7.1 million, respectively, during the same period in 2000.<sup>11</sup>

In commenting on a draft of this report, the Commissioner of Internal Revenue said that although IRS made “extraordinary efforts to handle advance refund calls,” the high volume of telephone calls resulted in a reduced level of service. The Commissioner’s letter, which is in appendix I, cites various statistics to document the increase in demand. Because those statistics include calls to TeleTax, they differ from the statistics cited in the preceding paragraph.

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### Some Taxpayers Received Duplicate Checks

Another problem related to the advance tax refunds was identified within the first 2 weeks of the advance refund period and promptly corrected. The problem involved duplicate checks sent to taxpayers by one of the three DFAS centers that assisted FMS in issuing the advance tax refund checks. The problem surfaced when two taxpayers who had received duplicate checks tried to cash the second check and a third taxpayer notified IRS about receiving a duplicate check. Once the problem was identified, FMS decided to suspend use of the DFAS center from which the duplicate checks had emanated. According to FMS, due to significantly lower check volumes than originally anticipated, the DFAS center was subsequently retained as a contingency site, rather than being returned to full check production.

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<sup>10</sup>The number of total call attempts includes repeat calls and is the sum of calls answered, calls abandoned by the caller before receiving assistance, and calls that received a busy signal. The unique telephone number measure is IRS’ estimate of the number of taxpayers who called, rather than the number of calls. It measures the number of calls from identifiable telephone numbers and counts all call attempts from each telephone number as one call until the caller reaches IRS and is served, or until a 1-week window expires.

<sup>11</sup>The total call attempts data are for July 1 through September 29, and the unique number attempts data are for July 1 through September 30. Both sets of data are for IRS’ three main toll-free telephone assistance lines and do not include calls to the TeleTax line.

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According to an FMS official, as of November 2001, about 25 instances of duplicate checks had been identified. Of the 25 taxpayers who received duplicate checks, 14 taxpayers had either fully repaid the extra payment or had returned the duplicate check and 2 taxpayers had partially repaid the extra payment. FMS was in the process of recovering the duplicate payments from the other nine taxpayers.

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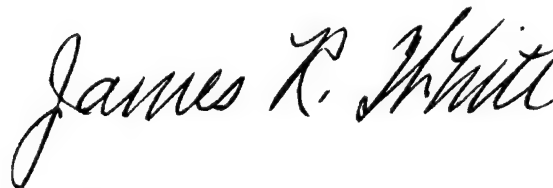
## Agency Comments

In commenting on a draft of this report, the Commissioner of Internal Revenue and the Commissioner of FMS provided some clarifying information that we used to revise the report where appropriate. In commenting on the advance tax refund program in general, the Commissioner of Internal Revenue said that IRS was able to accomplish what it did by "applying the maximum resources possible and giving it top priority management attention." The Commissioner of FMS said that the program was "extremely successful particularly considering the time constraints placed upon us to plan and execute this critically important and highly visible program."

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As we agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. We will then send copies to others who are interested and make copies available to others who request them.

This report was prepared under the direction of David J. Attianese, Assistant Director. If you have any questions about this report, please contact me or Mr. Attianese at (202) 512-9110. Key contributors to this assignment were Ronald W. Jones and Robert C. McKay.



James R. White  
Director, Tax Issues

# Appendix I: Comments From the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

December 7, 2001

Mr. James R. White  
Director, Tax Issues  
General Accounting Office  
Washington, D.C.

Dear Mr. White:

I am responding to your draft report, "Interim Report on Advance Tax Refunds". I am pleased the report outlines the actions we have taken to issue notices to 120 million taxpayers, to respond to taxpayer inquiries, and to compute, account for, control, and produce advance refund checks within the limited time we had to implement this provision in the Economic Growth and Tax Relief Reconciliation Act of 2001. We accomplished this by applying the maximum resources possible and giving it top priority management attention.

The report notes that taxpayers who called IRS during the advance tax refund period had greater difficulty reaching IRS assistors than did taxpayers who called during the same timeframe in 2000 or during the 2001 tax filing season. The demand pattern and type of service customers requested during the rebate period was vastly different than the demand and type of service requested during the 2001 filing season and the same timeframe in 2000.

While the level of service did decrease when compared to filing season performance and compared to the same timeframe in 2000, taxpayer demand greatly increased as a result of the advance tax refund. Call attempts in both automated and assistor call demand increased by 391.5 per cent over the prior period. Taxpayers made 53.6 million attempts, including TeleTax, on the IRS compared to 13.7 million the prior year. Of these 53.6 million attempts, we served an additional 15 million customers compared to the prior year. We used automation to serve 14.2 million customers while assistors served approximately .8 million.

While we made extraordinary efforts to handle advance refund calls through automation and increased available post filing season staffing, the high volume of telephone calls resulted in the reduced level of service.

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**Appendix I: Comments From the Internal  
Revenue Service**

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We look forward to continuing to work with your staff on this matter. If you have any questions about this response, please contact Dianne Grant at 202-622-3599.

Sincerely,

A handwritten signature in dark ink, appearing to read "Charles O. Rossotti", with a stylized flourish at the end.

Charles O. Rossotti



# Appendix II: Comments From the Financial Management Service



DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE  
WASHINGTON, D.C. 20227

December 6, 2001

David J. Attianese  
Assistant Director  
Tax Issues  
General Accounting Office  
441 G Street, NW  
Washington, D.C. 20548

Dear Mr. Attianese:

This letter is in response to your request of the Financial Management Service (FMS) to provide comments on the General Accounting Office (GAO) Report GAO-02-257, "Interim Report on Advance Tax Refunds," dated December 2001.

With only three weeks remaining in the Advanced Tax Refund program, FMS has experienced no significant problems in meeting the Economic Growth and Tax Relief Reconciliation Act of 2001 requiring the issuance of tax relief payments. In fact, we consider this program extremely successful particularly considering the time constraints placed upon us to plan and execute this critically important and highly visible program.

Although not substantive, I would like to offer two technical corrections to the report. First, returned payments (page 8) are initially processed (scanned) at all four of our regional financial centers and entered into the Austin RFC database for actual IRS return processing. Secondly, on page 3, the 300,000 advance refund checks undelivered should be 400,000 to be consistent with your reference on page 7, and the "as of" date should be changed to September 30, 2001.

Finally, I wish to clarify our actions concerning the release of 25 duplicate payments by one of our supporting DFAS sites. As stated in your report, we immediately suspended operations at the DFAS center until we had the opportunity to review the extent of the problem. However, due to significantly lower check payment volumes than originally anticipated, we made the decision to retain the DFAS center as a contingency site rather than return it to full check production operation.

I thank you for the opportunity to review and comment on this interim report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard L. Gregg".

Richard L. Gregg

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E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov), or  
1-800-424-5454 (automated answering system).

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## Public Affairs

Jeff Nelligan, Managing Director, [NelliganJ@gao.gov](mailto:NelliganJ@gao.gov) (202) 512-4800  
U.S. General Accounting Office, 441 G. Street NW, Room 7149,  
Washington, D.C. 20548